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BEFORE THE ARIZONA CORPORATION COMMISSION

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Commissioner

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IN THE MATTER OF QWEST
CORPORATION'S FILING OF
RENEWED PRICE REGULATION PLAN.

DOCKET NO. T-01051B-03-0454

IN THE MATTER OF THE
INVESTIGATION OF THE COST OF
TELECOMMUNICATIONS ACCESS.

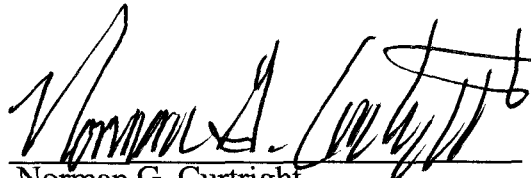
DOCKET NO. T-00000D-00-0672

NOTICE OF FILING TESTIMONY
SUMMARIES

Qwest Corporation files herewith summaries of the Testimony in Support of Settlement Agreement and summaries of Rebuttal Testimony in Support of Settlement Agreement in connection with the testimony of David Ziegler, Jerrold L. Thompson, Philip E. Grate, and David L. Teitzel.

SUBMITTED this 28th day of October, 2005.

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**SUMMARY OF TESTIMONY
OF DAVID L. ZIEGLER
ON BEHALF OF QWEST CORPORATION
DOCKET NO. T-01051B-03-0454**

My testimony describes the consumer benefits of the Settlement Agreement (the "Agreement"); the term of the Agreement; notice to consumers; filing of tariffs and price lists; elimination of certain reporting requirements; and why the Agreement is in the public interest.

The Agreement has quantifiable consumer benefits that total \$5.5M and additional benefits that cannot be quantified in monetary terms because the benefit is either non-monetary or the number of impacted customers is unknown. Quantifiable benefits include the reduction in zone charges, a reduction in residential non-published and residential non-listed telephone listings and increased funding for the Telephone Assistance Plan for the Medically Needy. Consumer benefits that are not quantified in monetary terms are changes to the service quality tariff, increased line extension credits, a rate cap on directory assistance and the hard cap on Basket 1 services.

The proposed Agreement is in the public interest because it provides numerous consumer benefits as described in my testimony while allowing Qwest to be regulated similarly to its competitors in an increasingly competitive Arizona market.

It is my recommendation that the Commission find that the Agreement is in the public interest and approve the Agreement as filed.

**SUMMARY OF TESTIMONY
OF JERROLD L. THOMPSON
ON BEHALF OF QWEST CORPORATION
DOCKET NO. T-01051B-03-0454**

My testimony provides a description of the pricing flexibility afforded Qwest by the terms and conditions of the Settlement Agreement and Price Plan negotiated by the parties. Under the terms of the Agreement, Qwest has agreed to price constraints, price reductions, and overall revenue constraints from rate increases in exchange for the opportunity to raise or adjust prices for its competitive services.

Telecommunications is a very complex and competitive business in many parts of Arizona. This Settlement Agreement and Price Plan are the product of thorough consideration and careful balancing of the complex issues raised by the parties to the Agreement which include the Commission Staff, Qwest, local competitors (Cox, MCI, Time Warner, and XO), customers (Department of Defense and All Other Federal Executive Agencies), and investors (AUIA). I recommend that the Commission approve the Settlement Agreement and the Price Plan as submitted by the Parties.

My testimony explains why the responsive testimony of Dr. Johnson is counter-factual and misleading. My testimony details why Dr. Johnson's testimony does not reflect a thorough understanding of the specifics of the settlement and the proposed Price Plan. I explain how he bases his conclusions on

misunderstandings and assumptions that are not accurate. I list his omissions of critical aspects of the settlement and the proposed Price Plan which further his view that the proposed Price Plan does not provide increased levels of regulation over Qwest. I respond to Dr. Johnson's inaccurate critique that the Price Plan does not include broad policy issues such as universal service funding and geographic issues. I conclude that Dr. Johnson's responsive testimony offers very little to the Commission due to its inaccuracy and erroneous conclusions and should be disregarded.

**SUMMARY OF TESTIMONY
OF PHILIP E. GRATE
ON BEHALF OF QWEST CORPORATION
DOCKET NO. T-01051B-03-0454**

In reaching an Agreement, the parties stipulated to the amount of the fair value rate base, the rate of return on fair value rate base, the incremental revenue requirement (revenue deficiency) and the regulatory accounting Qwest is to use in future Arizona ratemaking to account for depreciation, other post-employment benefits and internal use software. The depreciation lives and methods that the Agreement prescribes reduce Qwest's test year depreciation expense 57% and will continue to be used in the future. Agreement on these key ratemaking and regulatory accounting issues allowed the parties to settle and avoid possibly protracted litigation. The revenue deficiency amounts that the parties advocated and that the Agreement stipulates are as follows:

Qwest	RUCO	Staff	Agreement
\$355.4 million	\$159.5 million	\$3.5 million	\$31.8 million

Qwest has agreed to expanded reporting obligations whereby it will provide Staff separated results of operations annually. Qwest also agreed to file a rate case if its application for extension, renewal or termination of the Renewed Price Plan contemplates increasing Arizona intrastate revenues more than a de minimis amount above the increased revenues that the parties agreed upon as part of this Agreement and that are permitted by the Renewed Price Plan.

Decision No. 67734 requires Qwest to demonstrate that the terms of the Renewed Price Plan give ratepayers "full credit for the value of the April 1, 2005 productivity adjustment..." that was suspended. Section 10 of the Agreement satisfies this requirement by providing that during Year 1 of the Plan Qwest's opportunity to increase rates up to its stipulated \$31.8 million revenue deficiency is reduced by \$12 million for the April 1, 2005 productivity adjustment. Ms. Diaz Cortez argues that the \$12 million limitation on Qwest's opportunity to increase its rates does not satisfy Qwest's obligation because it "does not render ratepayers in a better position than they were before the settlement agreement."

Ms. Diaz Cortez incorrectly asserts that in order to give ratepayers full credit for a suspended rate reduction, ratepayers must receive a rate reduction. However, Decision No. 67734 does not call for a rate reduction. It calls for ratepayers to receive full credit for the rate reduction. RUCO fails to acknowledge that because Qwest is entitled to recover its stipulated \$31.8 million revenue deficiency, reducing that recovery by \$12 million in Year 1 bestows a \$12 million benefit on Arizona ratepayers that gives them full credit for the rate reduction that would have been in effect between April 1, 2005 and April 1, 2006. RUCO also fails to acknowledge that the Agreement stipulates a revenue deficiency that is \$127.7 million smaller than the \$159.5 revenue deficiency that RUCO advocated.

Dr. Johnson argues that, as a matter of policy, the Agreement should be rejected unless it is as good as or better than the current Price Plan for residential and other mass market consumers. I testify that it would be inappropriate for the Commission to adopt RUCO's parochial criteria for evaluating the Agreement.

The constituents of the public interest are not limited to just those Qwest customers that RUCO represents. They also include all other customers to whom Qwest provides service, Qwest's investors, Qwest's employees, Qwest's competitors and Arizona's economy. The testimony of Jerrold Thompson recounts the many provisions of the revised Price Plan designed specifically to benefit consumers. Dr. Johnson's testimony fails to mention these consumer benefits, much less to meaningfully incorporate them into his assessment of the Revised Price Plan.

Dr. Johnson argues the Revised Price Plan should be benchmarked against the current Price Plan. I disagree. The proper benchmark is current conditions including the current state of competition in Arizona telephony and the Company's current financial performance and productivity. Mr. Teitzel's rebuttal testimony provides a thorough review of the current state of competition in Arizona telephony. My testimony addresses Qwest's financial performance and productivity. I conclude that after more than century of relatively steady access line growth, Qwest's loss of 26 percent of its retail access lines in the last four calendar years marks an unprecedented and fundamental change in the course of Arizona telephony that has a profound effect on the Company's financial performance and productivity. A revised price plan must reflect these fundamental changes.

Dr. Johnson identifies certain features of the Revised Price Plan that he considers problematic. One such problem is that it does not subject certain

services to annual adjustments for inflation minus a 4.2 percent Productivity Offset that is a feature of the current Price Plan. My testimony explains the origin of the 4.2 percent Productivity Offset and provides a financial explanation of the reasons why its elimination under the Revised Price Plan is appropriate.

I analyze the practical application of RUCO's proposed regulatory regime under which the vast majority of Qwest's rates would continue to be adjusted by an annual inflation minus 4.2 percent Productivity Offset. I show that under RUCO's proposal Qwest is virtually assured of being unable to recover any significant portion of its revenue deficiency and explain why it is probable that the continuation of the 4.2 percent Productivity Offset would exacerbate Qwest's revenue deficiency.

Arguing that "It is not yet time to begin thinking about providing the Company with the type of extreme pricing flexibility that it seeks through this proposal," Dr. Johnson recommends that the Agreement be rejected. My testimony offers an alternative perspective, that of the Staff of the New York Public Service Commission which released a White Paper on Competition in New York in late September. The White Paper concluded that every residential service that Verizon New York sells except for a basic service offering should have full pricing flexibility.

Unlike RUCO, the NYPSC Staff conducted an analysis of access line and minutes-of-use loss of incumbent local exchange companies from which they concluded, "It is clear based upon the continued loss of access lines and minutes

of use...that the current system is imposing unreasonable burdens on incumbent telephone companies."

I then compare the data the NYPSC Staff reviewed for Verizon New York with the same data for Qwest Arizona. The comparison shows remarkably similar levels of access line loss, minutes of use loss, revenue declines and pre-tax operating return declines.

RUCO's conclusions and the NYPSC Staff's conclusion stand in stark contrast to one another. RUCO justifies its opposition to the Agreement on the grounds that Qwest retains substantial "residual monopoly power" in Arizona. The NYPSC Staff concludes that "The provision of telecommunications services is no longer a natural monopoly. A regulatory regime that ignores that reality will not work."

Qwest's Arizona financial data—especially its rapid and unprecedented access line and local service revenue losses—refutes RUCO's conclusion and supports the same conclusion for Arizona that the NYPSC Staff reached for New York

**SUMMARY OF TESTIMONY
OF DAVID L. TEITZEL
ON BEHALF OF QWEST CORPORATION
DOCKET NO. T-01051B-03-0454**

My testimony focuses on issues raised in this docket in the testimonies of Dr. Ben Johnson on behalf of the Residential Utility Consumer Office ("RUCO") and Mr. Albert Sterman of the Arizona Consumers Council ("ACC") in regard to the status of competition in the telecommunications market in Arizona and how the level of current competition bears on the proposed settlement in this docket. Both of these witnesses contend the current telecommunications market in Qwest's service territory in Arizona is not sufficiently competitive to warrant Commission approval of the proposed settlement agreement regarding Qwest's Price Plan. While referencing the current state of telecommunications competition in Arizona, both witnesses discount the ever-expanding effects of wireless and Voice over Internet Protocol ("VoIP") competition in Arizona, and both witnesses ignore the fact that, under the terms of the proposed Price Plan which calls for statewide averaged Qwest local exchange rates, customers in rural areas of Qwest's service territory will benefit from competition in the more competitive areas of the state such as Phoenix and Tucson. Neither witness, while referencing the current telecommunications market in Arizona and discounting competition in the market as now being sufficient to warrant Commission support of the proposed Qwest Price Plan, presents current facts to support his opinions.

The current facts presented in my rebuttal testimony with respect to CLEC-based competition as well as "intermodal" wireless and VoIP competition demonstrate that competition for Qwest's services in Arizona is robust and continues to increase in intensity and diversity. Since the filing of my direct testimony in this docket over 17 months ago, in which I provided facts regarding telecommunications competition in Arizona at that time, the market has undergone a sea change. Not only has Qwest lost over 200,000 retail lines beyond the loss of 577,000 lines through December 2003 shown in my direct testimony, a number of events have occurred in the past 17 months that have radically altered the telecommunications market and will continue to drive such changes for the next several years. For example, the SBC/AT&T and Verizon/MCI mergers (which mark the end of the existence of the first and second largest interexchange carriers in the nation as independent market competitors) were announced and are now rapidly making their way through the regulatory approval process. Since each of these entities is now providing services in Arizona, the merged entities will be able to leverage their synergies to become even more powerful providers of telecommunications services in the state. Another example emblematic of the changing telecommunications paradigm is the recent purchase of Skype by eBay which will accelerate the adoption of "free" VoIP telephone services as alternatives to traditional telephone services of providers such as Qwest (it is also noteworthy that the SBC/AT&T and Verizon/MCI pending merger partners are now actively marketing their own versions of VoIP). Additionally, the number of wireless subscribers in Arizona

has now grown to 3,299,222 and now exceeds the combined total of 3,159,283 ILEC and CLEC access lines in the state.

These are just three of the many significant market developments that have occurred in the 17 months since Qwest filed its direct testimony in this docket. The Arizona telecommunications market is competitive and competition will clearly continue to evolve and grow in the state. The present level of telecommunications competition in Qwest's Arizona service territory, and its continuing trajectory, fully warrants Commission approval of the proposed stipulation in Qwest's Price Plan.